State of Idaho

DEPARTMENT OF INSURANCE

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Understanding Life Settlements

(September 17, 2009) – A recent article in the *Statesman* described the selling of existing life insurance policies known as "life settlements." As mentioned in the article, the market for resale of life insurance policies owned by seniors has exploded in the past several years. To date, 27 states, including Idaho, have passed legislation to protect the owners of life insurance policies.

While the resale market for life insurance has increased significantly, so has the frequency of fraud. The fraud unit of the Idaho Department of Insurance is currently investigating several cases involving the illegal purchase of life insurance for the purpose of selling to a third party.

House Bill 75, *Life Settlements Act*, added new sections to Idaho Code effective July 1, 2009, which implements many protections for the seller of the policy, including required licensure of the life settlement provider (the individual or firm purchasing the policy) and the life settlement broker (the individual marketing and negotiating the sale of the policy who works for the policy owner).

The Act also requires that all life settlement contract forms, disclosures and advertising be filed with the Department prior to use in Idaho. Specific disclosures must be provided to the policy owner at or before the time a life settlement contract is signed by the owner.

The policy owner has a right to rescind the life settlement contract within twenty days of the date executed.

An important part of the legislation makes it illegal to engage in stranger originated life insurance (STOLI) transactions. A STOLI is a plan to initiate a life insurance policy for the benefit of a third party investor who has no insurable interest in the insured. As an example, it is illegal for an investor with no financial interest in the life of a person to solicit that person to purchase a life insurance policy for the purpose of selling the policy to the investor. Also, it is a violation of the law to enter into a life settlement contract within two years of the date a policy was issued unless special circumstances, as defined by the Act, exist.

I encourage anyone who is considering selling their existing life insurance policy to review the provisions of the new law and, most importantly, the brochure, *Selling Your Life Insurance Policy: Understanding Life Settlements*, available on the Department Web site, www.doi.idaho.gov. This brochure must be provided to the owner of the policy prior to signing the application for the life settlement contract. Consumers should also use the Web site to verify that the life settlement broker and provider are properly licensed in Idaho.

Consumers should always remember the old adage, "If it seems too good to be true, it probably is." Our knowledgeable and experienced Consumer Affairs Officers will gladly answer your questions regarding the *Life Settlement Act*. They can be reached at 208-334-4250.